

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and  
Financial Statements

June 30, 2004 and 2003

Together with Independent Auditors' Report

# **Alaska Student Loan Corporation**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Alaska Student Loan Corporation (Corporation) functions as a lender and servicer of education loans. The following is a discussion and analysis of the Corporation's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2004. This discussion and analysis contains other supplementary information in addition to the basic financial statements for the year ended June 30, 2004. Please read it in conjunction with the Corporation's financial statements and the notes to financial statements, which follow this section.

### **Financial Highlights**

- The Corporation's total assets at June 30, 2004 were approximately \$980.6 million, which is an increase of \$146.8 million or 18% over June 30, 2003.
- The Corporation's long-term debt increased by \$146.6 million during fiscal year 2004, which represents the net difference between new issues and payments and refunding of outstanding debt. During the year the Corporation issued bonds in the amount of \$190.2 million.
- The assets of the Corporation exceeded its liabilities at the close of the fiscal year by \$251.5 million (reported as net assets), a decrease in net assets of \$71.5 million or 22% over June 30, 2003.
- The Corporation's education loans receivable was \$577.2 million at year-end, an increase of \$11.1 million during the year.
- The Corporation's operating revenue was \$38.7 million, an increase of \$1.5 million during the year.
- The Corporation's interest expense was \$19.7 million during the year.
- The Corporation's expenses related to operations was \$8.9 million during fiscal year 2004.

### **Overview of the Financial Statements**

The Corporation is an enterprise fund of the State of Alaska. As such, the Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as applied on an accrual basis. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements of the Corporation are as follows:

# Alaska Student Loan Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Balance Sheets - This statement presents information regarding the Corporation's assets, liabilities and net assets. Net assets represent the total amount of assets less the total of liabilities. The Balance Sheets classify assets, liabilities, and net assets as current, non-current, and restricted.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents the Corporation's interest income, costs of funds, operating expenses, and changes in net assets for the fiscal year.

Statement of Cash Flows – This statement presents cash flows from operations, non-capital financing, capital, and investing activities. The Corporation presents its cash flows statement using the direct method of reporting operating cash flows.

### Financial Analysis

The following condensed financial information was derived from the Corporation's financial statements and reflects the Corporation's changes during the fiscal year:

	2004	2003	Percentage Change
Assets:			
Current assets	\$ 33,673,030	31,020,362	9%
Restricted assets	946,898,907	802,709,476	18%
Total assets	980,571,937	833,729,838	18%
Liabilities:			
Current liabilities payable from unrestricted assets	16,863,415	19,680,723	(14%)
Current liabilities payable from restricted assets	173,057,240	42,130,819	311%
Non-current liabilities payable from restricted assets	539,175,590	448,885,517	20%
Total liabilities	729,096,245	510,697,059	43%
Net assets:			
Restricted net assets	235,966,077	311,693,140	(24%)
Unrestricted net assets	15,509,615	11,339,639	37%
Total net assets	\$ 251,475,692	323,032,779	(22%)

Origination fees of \$1.4 million were collected on loan fundings during the year, however, the annual transfer from the origination fee fund to reimburse the trust funds for write-offs did not occur until after June 30, 2004. Origination fees in the amount \$4.2 million were used to cover loan losses and as a result, reduced the deferred credit account under the current liabilities section.

# Alaska Student Loan Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Restricted assets, current liabilities payable from restricted assets, and non-current liabilities payable from restricted assets increased from the prior year as a result of increased bonding activity during the year and a total of \$80.6 million return of capital payable to the State in FY2005.

The Corporation issued the 2004 Series bonds in the amount of \$115.1 million to refund outstanding bonds and provide funding for the Corporation's loan programs. The refundings included \$13.1 million for the early redemption of the 1994 Series A bonds dated July 1, 1994 and \$26.4 million for the early redemption of a portion of the 2002 Senior Series A bonds dated June 4, 2002.

The Corporation issued Capital Project Revenue Bonds 2004 Series A in the amount of \$75.1 million to pay for \$75 million of capital projects for the State. This payment is a return of capital provided by the State for the creation of the Corporation.

Beginning in FY2003, the Corporation changed its method of amortizing bond issuance costs from the effective interest method to the straight-line method as management believes the straight-line method is more understandable given the nature of the Corporation's variable rate bonds. The cumulative effect of the change in amortization method recognized in FY2003 was \$1.6 million.

In FY2003 the Corporation modified the loan allowance estimate for more mature loans in the portfolio to better recognize the positive impact of ongoing loan servicing and collection improvements. The cumulative effect of this change was a reduction in the allowance for loan loss of \$10.4 million in FY2003.

	2004	2003	Percentage Change
Operating revenue-loan interest income	\$ 38,657,784	37,154,043	4%
Operating expenses	(13,821,508)	(10,335,689)	(33%)
Non-operating expense, net	(15,793,363)	(1,928,305)	(719%)
Income before cumulative effect	9,042,913	24,890,049	(64%)
Cumulative effect of change in accounting methods	—	1,620,730	(100%)
Income before special items	9,042,913	26,510,779	(66%)
Special item, return of capital	(80,600,000)	(5,000,000)	(1500%)
Increase in net assets	(71,557,087)	21,510,779	(433%)
Net assets — beginning	323,032,779	301,522,000	7%
Net assets — ending	\$ 251,475,692	323,032,779	(22%)

The Corporation provided borrowers with an interest cost reduction for all loans with interest rates exceeding 8.3% for the third year in a row. The aggregate benefit resulted in a reduction in income of \$883,000 and \$1.1 million in FY2004 and FY2003, respectively.

# **Alaska Student Loan Corporation**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Interest income from investments, which is reported as a non-operating item, fell \$4 million from the previous year as a result of low market interest rates.

The net non-operating expense amount in FY2003 was impacted by an allowance for loan loss adjustment.

Special item, return of capital, represents payments to the State of Alaska as allowed for by statute. An annual payment as determined by the Corporation's Board of Directors is based on the amount of the Corporation's income before special items during the fiscal year ending two years before the end of the fiscal year in which the payment is to be made. Additionally, the Corporation issued bonds in FY2004 to finance capital projects of the State of Alaska.

### Corporation Activities and Conditions Affecting Financial Position

The Alaska Commission on Postsecondary Education (Commission) administers the Corporation's programs. Operating expenditures of the Commission are subject to budgetary appropriation. The Corporation reimburses the Commission for such expenditures that relate to the program administration and are permitted under the bond indentures of the Corporation.

The purpose of the loan program is to provide low cost loans to Alaskans pursuing education and training at a postsecondary level and to other qualified individuals attending postsecondary institutions in the State.

Historically, the Corporation has provided various alternative education loan programs under the umbrella title of the Alaska Student Loan Program. The Corporation modified and broadened its program offerings beginning in the 2002-2003 academic year by implementing a successor program, the AlaskAdvantage® Loan Program, which includes Federal Family Education Loan Program (FFELP) loans governed by the Higher Education Act. The Corporation also replaced its fixed rate alternative loan, the Alaska Student Loan, with a new variable rate alternative loan, the Alaska Supplemental Education Loan (ASEL).

To accommodate FFELP lending, the Commission secured the status of "eligible lender" under the Higher Education Act and entered into various agreements with Northwest Education Loan Association, to serve as the Commission's "eligible guarantor" under the Higher Education Act. Loans authorized under the Higher Education Act which the Corporation is funding include Subsidized Stafford, Unsubsidized Stafford, and PLUS loans. The Higher Education Act provides for federal (i) insurance or reinsurance of eligible loans, (ii) interest subsidy payment to eligible lenders with respect to certain Subsidized Stafford loans, and (iii) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education to holders of eligible loans. For a loan loss to be eligible for reimbursement to a lender by a

# **Alaska Student Loan Corporation**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

guarantor the loan must be serviced according to standards set by federal statutes and regulations.

The interest rate on FFELP loans is variable, reset annually on each July 1. Subsidized Stafford and unsubsidized Stafford loans which are in in-school, grace, and deferment periods bear interest at a rate equivalent to the 91-day T-bill rate plus 1.7%, with a maximum rate of 8.25%. Subsidized Stafford and unsubsidized Stafford loans in all other periods bear interest at a rate equivalent to the 91-day T-bill rate plus 2.3%, with a maximum rate of 8.25%. PLUS loans bear interest at a rate equivalent to the 91-day T-bill rate plus 3.1%, with a maximum of 9%.

In April 2004, the Corporation began offering a new federal consolidation loan for any borrower already having a loan with the Corporation. Federal consolidation loans bear interest at a rate equal to the weighted average of the interest rates of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

The interest rate for the ASEL is adjusted annually on or after June 1 and effective for the next twelve months beginning July 1. According to State statute, the variable interest rates are to be based on the bond equivalent rate of 91-day T-bill auctioned at the final auction held before June 1 of the loan year plus up to 2.8% and are to be capped at 8.25%.

In fiscal year 2003, the Corporation offered a new supplemental consolidation loan to borrowers who had two or more fixed rate Alaska Student Loans. The supplemental consolidation loan criteria has been expanded to include any supplemental loan of the Corporation except the Family Education Loan. The supplemental consolidation loans accrue interest at fixed rates between 5.8% and 6%.

The AlaskAdvantage® Program was structured to provide eligible student borrowers with low cost financial aid options. It encourages students to take advantage of federal aid resources to maximize their grant and lowest cost loan options prior to tapping into alternative loan sources. The federal loan program allows borrowers to create a serialized note with a given lender.

Between fiscal year 2003 and 2004, the Corporation saw a 10% increase in loan originations and had the highest volume of federal loan awards in the state as compared to other federal education loan providers in Alaska. Federal loan originations increased by 64% between fiscal year 2003 and 2004.

### AlaskAdvantage® Financing:

To facilitate financing the program, the Corporation issued \$115.1 million of tax-exempt, limited obligation, education loan revenue bonds under the 2002 Master Trust Indenture.

# **Alaska Student Loan Corporation**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The bond issuance included refunding bonds, which included \$13.1 million for the early redemption of the 1994 Series A Bonds and \$26.4 million for the early redemption of a portion of the Senior Series 2002 A Bonds.

### AlaskAdvantage® Borrower Benefits:

Under the AlaskAdvantage® Program the Corporation's Board of Directors has approved various loan benefit features that provide incentives and rewards to borrowers who participate in the program.

Under the AlaskAdvantage® Borrower Benefit Program, effective July 1, 2004 through June 30, 2005, borrowers with qualified loans held by the Corporation are eligible for certain interest rate reductions or rebates on any such loan.

Borrower Benefit Program offerings are subject to the availability of funds and annual modifications or termination by the Corporation at its discretion provided, however, that any changes do not adversely effect the credit rating of certain bonds issued by the Corporation.

### **Contacting the Corporation's Financial Management**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for its assets. If you have any questions about this report or need additional financial information, contact the Finance Officer of the Corporation at (907) 465-6757.

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Alaska Student Loan Corporation:

We have audited the accompanying basic financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the years ended June 30, 2004, and 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Alaska Student Loan Corporation as of June 30, 2004, and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 6, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 3, 2004, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 3, 2004



# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Balance Sheets

Years ended June 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents (note 3)	\$ 17,064,103	9,492,828
Investments (note 4)	16,441,312	21,386,775
Accrued interest receivable	167,615	140,759
Total current assets	33,673,030	31,020,362
Restricted assets:		
Cash and cash equivalents (note 3)	10,911,267	9,903,333
Investments (note 4)	438,231,737	307,342,838
Loans receivable (note 5)	577,248,263	566,146,551
Less allowance for:		
Doubtful loans (note 6)	(99,333,011)	(96,229,397)
Forgiveness (note 7)	(2,396,055)	(2,292,031)
Net loans receivable	475,519,197	467,625,123
Accrued interest receivable, net of forgiveness allowance of \$708,964 and \$698,651 in 2004 and 2003, respectively	15,979,993	12,299,783
Due from U.S. Department of Education	390,266	128,282
Bond issuance cost, net of accumulated amortization of \$4,742,811 and \$4,093,522 in 2004 and 2003, respectively	5,866,447	5,410,117
Total restricted assets	946,898,907	802,709,476
Total assets	\$ 980,571,937	833,729,838

(Continued)

See accompanying notes to the financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Balance Sheets

Years ended June 30, 2004 and 2003

Liabilities and Net Assets	2004	2003
Liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 153,263	209,495
Due to State of Alaska	418,868	357,150
Warrants outstanding	97,718	91,209
Deferred credit (note 2)	10,593,566	14,022,869
Return of capital payment declared (note 12)	5,600,000	5,000,000
Total current unrestricted liabilities	16,863,415	19,680,723
Current liabilities payable from restricted assets:		
Accounts payable	37,100	—
Due to State of Alaska	69,773	23,614
Warrants outstanding (note 5)	489,548	567,918
Return of capital payment declared (note 12)	75,000,000	—
Bond interest payable	9,742,396	9,970,298
Current portion of arbitrage rebate payable (note 9)	258,423	448,989
Current portion of bonds payable (note 8)	87,460,000	31,120,000
Total current liabilities	173,057,240	42,130,819
Noncurrent liabilities payable from restricted assets:		
Arbitrage rebate payable (note 9)	596,969	553,399
Bonds payable, net of bond premiums/discounts (note 8)	538,578,621	448,332,118
Total noncurrent liabilities	539,175,590	448,885,517
Total liabilities	729,096,245	510,697,059
Commitments and contingencies (note 12)	—	—
Net assets:		
Restricted net assets	235,966,077	311,693,140
Unrestricted net assets (note 2)	15,509,615	11,339,639
Total net assets	251,475,692	323,032,779
Total liabilities and net assets	\$ 980,571,937	833,729,838

See accompanying notes to financial statements.

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Statements of Revenue, Expenses

and Changes in Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenue - interest income - student loans	\$ 38,657,784	37,154,043
Operating expenses:		
Provision for:		
Loan losses (note 6)	4,439,205	1,229,039
Forgiveness (note 7)	418,148	451,788
Operations	8,964,155	8,654,862
Total operating expenses	<u>13,821,508</u>	<u>10,335,689</u>
Operating income	<u>24,836,276</u>	<u>26,818,354</u>
Nonoperating revenue (expense), excluding special item:		
Interest income from investments	5,318,342	9,261,130
Interest expense	(19,651,902)	(20,740,722)
Arbitrage rebate expense	(301,993)	(142,048)
Amortization of bond issuance costs	(1,157,810)	(678,580)
Change in estimate of doubtful loan allowance (note 6)	<u>—</u>	<u>10,371,915</u>
Net nonoperating expense	<u>(15,793,363)</u>	<u>(1,928,305)</u>
Income before cumulative effect	9,042,913	24,890,049
Cumulative effect of change in accounting method (note 2)	<u>—</u>	<u>1,620,730</u>
Income before special item ("statutory net income")	9,042,913	26,510,779
Special item, return of capital (note 12)	<u>(80,600,000)</u>	<u>(5,000,000)</u>
Change in net assets	<u>(71,557,087)</u>	<u>21,510,779</u>
Total net assets-beginning	<u>323,032,779</u>	<u>301,522,000</u>
Total net assets-ending	\$ <u>251,475,692</u>	<u>323,032,779</u>

See accompanying notes to financial statements.

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Principal repayments received on loans	\$ 50,393,983	57,574,847
Interest received on loans	27,433,141	28,022,052
Other cash receipts	1,372,929	1,386,190
Loans originated	(60,632,108)	(55,120,991)
Cash paid to Alaska Commission on Postsecondary Education for operating expenses	(8,899,131)	(8,772,512)
Net cash provided by operating activities	9,668,814	23,089,586
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	116,058,226	47,000,000
Bond issue costs	(850,350)	(445,558)
Interest paid on bonds	(19,855,326)	(22,073,467)
Principal payments on bonds	(47,005,000)	(51,715,000)
Net cash provided by (used for) noncapital financing activities	48,347,550	(27,234,025)
Cash flows from investing activities:		
Interest received on investments	5,833,083	9,929,283
Investments matured	1,475,928,788	898,777,783
Investments purchased	(1,602,944,035)	(893,710,906)
Net cash provided by (used for) investing activities	(121,182,164)	14,996,160
Cash flows from capital activities:		
Proceeds from issuance of bonds	77,508,799	—
Bond issue costs	(763,790)	—
Return of capital payments	(5,000,000)	(5,250,000)
Net cash provided by (used for) return of capital	71,745,009	(5,250,000)
Net increase in cash and cash equivalents	8,579,209	5,601,721
Cash and cash equivalents at beginning of period	19,396,161	13,794,440
Cash and cash equivalents at end of period	\$ 27,975,370	19,396,161

(Continued)

See accompanying notes to financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 24,836,276	26,818,354
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in net loans receivable	(7,894,074)	(3,861,640)
Increase in net accrued interest receivable on loans	(3,598,985)	(2,527,318)
Decrease in due to State of Alaska	107,877	3,148,073
Increase in other assets	(261,984)	(128,282)
Decrease in accounts payable	(19,132)	(85,330)
Decrease in warrants outstanding	(71,861)	(157,059)
Decrease in deferred credit	(3,429,303)	(117,212)
	(15,167,462)	(3,728,768)
Net cash provided by operating activities	\$ 9,668,814	23,089,586
Summary of noncash transactions that affect recognized assets and liabilities:		
Provision for loan loss and forgiveness	\$ (4,857,353)	(1,680,827)
Provision for lost interest and forgiveness	(1,392,766)	(4,747,978)
Write-off of uncollectible loans	5,828,682	3,430,854
Forgiveness granted - principal	(314,123)	(506,292)
Forgiveness granted - interest	(77,651)	(129,823)
Bond discount amortization	(24,478)	(135,587)
Bond issuance cost amortization	(1,157,810)	(678,580)
Deferred credit used for loan loss	4,493,091	1,092,841
Deferred credit amortization	262,782	354,397
Interest capitalization	7,747,246	7,603,853
Unrealized gain (loss) on investments	(1,071,811)	488,980
Change in estimate doubtful loans	—	10,371,915
Cumulative effect of change in accounting method	—	1,620,730

See accompanying notes to financial statements

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

**(1) Authorizing Legislation and Organization**

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, was created in 1987 by an act of the State of Alaska Legislature (Legislature). The purpose of the Corporation is to provide low-interest education loans to Alaskans. The Corporation is authorized, with certain limitations, to issue its own bonds and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. All obligations so issued shall not be deemed to constitute a debt of the State of Alaska (State).

The State Governor appoints the Corporation's Board of Directors and the staff of the Alaska Commission on Postsecondary Education (Commission) administers the Corporation. The Commission's budget provides for reimbursement from the Corporation for operating and capital expenses. The Commission's budget is subject to review and approval from both the executive and legislative branches of the State.

The State has provided education loans through various programs since 1968. Prior to the creation of the Corporation, substantially all such loans were recorded in the Scholarship Revolving Loan Fund and Teacher Scholarship Loan Fund (Funds) of the State. In April 1988, by act of the Legislature, the assets, liabilities, and equities of the Funds were transferred to the Corporation effective December 30, 1987.

Loans are financed through the issuance of tax-exempt bonds or with recycled principal and interest repayments. The bonds outstanding are payable, primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of bonds.

**(2) Summary of Significant Accounting Policies**

**(a) *Fund Accounting***

The financial activities of the Corporation, which are restricted by the Corporation's bond indentures and the requirements of the Legislature, are recorded in various funds as specified in such instruments or necessitated by appropriation requirements or sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation's funds are considered to be enterprise funds for financial reporting purposes with revenues recognized when earned and expenses when incurred.

**(b) *Standard Application***

As allowed by the Government Accounting Standards Board Statement No. 20 (GASB 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

**(c) *Fiscal Year***

The Corporation's fiscal year begins July 1 and ends June 30, consistent with the State's fiscal year.

# **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## **Notes to Financial Statements**

June 30, 2004 and 2003

(d) ***Management Estimates***

In preparing the financial statements in accordance with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual amounts could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed below.

(e) ***Loans***

Loans represent education loans issued through the AlaskaAdvantage® Loan Programs, which include Alaska Supplemental Loans, Teacher Education Loans (TEL), Family Education Loans (FEL), (collectively referred to as supplemental loans), and federally guaranteed Stafford, PLUS and Consolidated loans. The terms of the loans vary depending on the year of inception and loan type. Interest accrues at fixed and variable rates ranging from 2.625% to 9% and is generally determined by loan type and issue date. The Corporation offers borrower benefits, which reduce the interest costs for eligible borrowers. The borrower benefit offerings are approved by the Corporation Board of Directors annually and may vary from year-to-year.

Borrowers of TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the program.

For certain supplemental loans awarded prior to July 1, 1987, borrowers can obtain forgiveness for up to 50% of loan principal and interest if the borrower resides in Alaska for specified periods upon successful completion of the program of study for which the loan was awarded.

(f) ***Allowance for Doubtful Loans***

The allowance for doubtful loans represents management's estimate, based on experience, of all loans that will ultimately be uncollectible. The Corporation charges off supplemental loans to the allowance upon death, bankruptcy as allowed by law, total disability of the borrower, or when a payment has not been received for five years on loans not in deferment. In fiscal year 2003, management changed the allowance estimate for older loan program years to better reflect the impact of ongoing loan servicing and collection improvements. To determine the change, management analyzed default data on matured loan pools and cohort default declines since calendar year 1997. These analyses were used to estimate reserve rates for loans outstanding as of June 30, 2003. Included in the older program years are the loans that were brought back for in-house servicing due to termination of the collection agency contracts in 1998, 2001 and 2003.

(g) ***Interest on Education Loans***

Interest on education loans is accrued when earned. For federally guaranteed subsidized loans, interest from the start date of the loan until a date that is six months after the student withdraws from school (plus any authorized deferment periods) is billed to and paid by the U.S. Department of Education under the Federal Family Education Loan Program. The borrower pays interest

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

subsequent to that date. For non-subsidized federally guaranteed loans and for all supplemental loans issued after June 30, 2002 interest from the disbursement date is paid by the borrower.

Certain supplemental loans are non-interest bearing while the borrower is completing eligible studies. All state guaranteed loans issued prior to July 1, 1996 are non-interest bearing during approved periods of deferment and postponement. Loans issued prior to July 1, 1987 are also non-interest bearing during a one-year grace period following completion of studies and a six-month sub-grace period following an approved deferment. Non-interest bearing loans are approximately \$38,476,179 at June 30, 2004.

Historical rates are used to determine the allowance for doubtful interest. The allowance for doubtful interest is approximately \$21,500,000 and \$21,900,000 as of June 30, 2004 and 2003, respectively. The provision for doubtful interest is a reduction of interest income and was approximately \$1,340,000 and \$4,739,000 for the years ended June 30, 2004 and 2003, respectively.

(h) ***Deferred Credit***

Borrowers who received supplemental loans after June 30, 1994 were charged an origination fee of 1%, 3% or 5%, generally determined by loan issue date. Its purpose is to offset loan losses due to death, disability, bankruptcy or default of borrowers charged the origination fee. The origination fee is recognized as revenue using the straight-line method equal to the loan repayment period and assumes repayment begins the year following origination. The allowance for doubtful loans has been reduced by the unamortized deferred credit.

(i) ***Allowance for Forgiveness***

The allowance for forgiveness represents management's estimate, based on experience of the loan forgiveness that will ultimately be applied for and granted.

(j) ***Bond Issuance Costs***

Bond issuance costs include underwriters' fees and other costs incurred in connection with the issuance of bonds. Effective for the year ended June 30, 2003, the Corporation changed its method of amortizing bond issuance costs from the effective interest method to the straight-line method. The cumulative effect of the change is \$1,620,731.

(k) ***Bond Discounts/Premiums and Deferred Amounts on Refundings***

Effective for the year ended June 30, 2004, the Corporation changed its method of amortizing bond discounts, premiums and deferred amounts on refundings from the effective interest method to the straight-line method. There is no cumulative effect of this change.

(l) ***Income Taxes***

The Corporation, as a government instrumentality, is exempt from federal and state income taxes.



**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

(m) ***Investments***

The Corporation carries all investments at fair value.

(n) ***Unrestricted Net Assets***

Unrestricted net assets represent assets of the Corporation not pledged as collateral for specific bond indentures. GASB 34 requires assets restricted by statute to be reported as unrestricted. Assets restricted by statute are approximately \$29,200,000 and \$28,100,000 at June 30, 2004 and 2003, respectively.

(3) **Cash and Cash Equivalents**

The statement of cash flows is presented to reflect the activity resulting in a change in cash and cash equivalents. For purposes of the statement of cash flows, the Corporation considers its equity in the State's Treasury Pools to be cash and cash equivalents. The Corporation's equity consists of cash, Short-term and Intermediate-term Fixed Income Pools, and repurchase agreements held by the State as the custodian for the Corporation.

Government Accounting Standards Board Statement No. 3 (GASB 3) and GASB Technical Bulletin 87-1 require deposits and investments to be categorized to indicate the level of risk assumed by the Corporation at the end of the period. Category 1 consists of investments that are insured or registered and held by the Corporation or its custodian in the Corporation's name. Category 2 consists of uninsured and unregistered investments held by the Corporation or its custodian in the Corporation's name. Category 3 includes uninsured and unregistered investments held by the Corporation or its custodian not in the Corporation's name.

A summary of cash and cash equivalents at June 30 follows:

	Risk Category		2004	2003
Fixed Income pools	—	\$	16,374,182	10,189,270
Deposits, collateralized	1		3,448,777	4,506,875
Repurchase agreements	1		8,152,411	4,692,735
Deposits, uncollateralized	3		—	7,281
		\$	<u>27,975,370</u>	<u>19,396,161</u>

Equity in the Fixed Income pools cannot be categorized because it represents the Corporation's share of ownership in the pool rather than ownership of specific securities.

Cash and cash equivalents in the amount of \$10,911,266 and \$9,903,333 for fiscal years 2004 and 2003, respectively, are subject to certain restrictions as specified in the bond indentures.

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Notes to Financial Statements

June 30, 2004 and 2003

### *Securities Lending*

The Fixed Income pool participates in the Department of Revenue's securities lending program (Program) as allowed by Alaska Statute 37.10.071. Under the Program, fixed income securities are loaned to broker agents or other entities for collateral in the form of cash or securities, with simultaneous agreement to return the collateral for the same securities in the future.

Collateral securities may not be pledged or sold unless the borrower defaults. Security loans are fully collateralized at not less than 102 percent of their fair value. There are no restrictions on the amount of the loans that can be made under the program. There is limited credit risk associated with the lending transactions since loss indemnification is provided if resulting from counterparty failure or default (subject to certain limitations).

At June 30, 2004 and 2003, the fair value of securities on loan allocable to the Corporation totaled \$3,243,043 and \$1,909,142, respectively. There were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities during either fiscal year 2004 or fiscal year 2003.

Additional investment information is disclosed in the financial schedules issued by the Department of Revenue, Treasury Division. These financial schedules are available through the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405 or at [www.revenue.state.ak.us/treasury/Publications.htm](http://www.revenue.state.ak.us/treasury/Publications.htm).

### (4) **Investments**

Allowable restricted investments are specified in the bond indenture, as are certain restrictions. Substantially all investments are held, in trust, for the benefit of the Corporation and the bondholders.

The Corporation's investments at June 30 are shown below:

	<u>Risk Category</u>	<u>2004</u>	<u>2003</u>
Categorized investments:			
U.S. government and federal			
agency securities	1	\$ 196,580,925	120,930,342
Repurchase agreements	1	38,421,000	41,257,379
Forward delivery agreements	1	26,819,796	13,000,644
Corporate Bonds	1	2,933,408	—
Bank investment contracts	3	—	9,340,000
		<u>264,755,129</u>	<u>184,528,365</u>
Non-categorized investments:			
Money market pool —			
Government securities	—	189,917,920	144,201,248
Total investments		\$ <u>454,673,049</u>	<u>328,729,613</u>

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## Notes to Financial Statements

June 30, 2004 and 2003

Pooled investments cannot be categorized because they represent the Corporation's share of ownership in the pool rather than ownership of specific securities.

The carrying value of investments at June 30, 2004, by contractual maturity, are shown below:

Due in one year or less	\$	315,247,849
Due within one to five years		98,594,814
Due in five years or more		40,830,386
	\$	<u>454,673,049</u>

Investments include amounts specifically designated for financing education loans. At June 30, 2004 and 2003 the investments available for financing education loans total \$148,165,230 and \$133,485,683 respectively. The funds are available to the Corporation only if certain cash flow tests are met. The remaining investments held by the Trustee are restricted for debt service, capital reserve and rebate requirements.

**(5) Restricted Loans Receivable**

A summary of restricted loans receivable, all of which are installment loans to individuals, at June 30 follows:

		<u>2004</u>	<u>2003</u>
Alaska Supplemental Loans	\$	534,089,988	537,252,920
Teacher Education Loans		9,062,785	9,332,715
Family Education Loans		9,122,020	9,743,222
Federal Family Education Loans		24,973,470	9,817,694
	\$	<u>577,248,263</u>	<u>566,146,551</u>

The loan portfolio summarized by loan status at June 30 follows:

		<u>2004</u>	<u>2003</u>
Enrollment	\$	101,318,896	94,222,923
Grace		27,699,282	28,585,428
Repayment		384,615,869	376,195,576
Deferment		63,614,216	67,142,624
	\$	<u>577,248,263</u>	<u>566,146,551</u>

Loans awarded and not disbursed at June 30, 2004 and 2003 total \$13,511,526 and \$8,723,521 respectively.

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

Included in loans receivable are \$450,894 and \$541,356 of loan warrants issued but not yet redeemed by the borrowers at June 30, 2004 and 2003, respectively. Redemption is contingent upon the borrowers meeting certain eligibility requirements.

Restricted loans receivables are pledged to the Corporation's outstanding bonds.

**(6) Allowance for Doubtful Loans**

A summary of the activity in the allowance for doubtful loans at June 30 follows:

		2004	2003
Balance at beginning of period	\$	96,229,397	107,710,286
Provision for loan losses		4,439,205	1,229,039
Net loans charged off		(1,335,591)	(2,338,013)
Change in estimate (note 2(f))		—	(10,371,915)
Balance at end of period	\$	<u>99,333,011</u>	<u>96,229,397</u>

**(7) Allowance for Forgiveness**

As described in note 2, the Corporation disburses loans of which principal and interest become eligible for forgiveness under certain conditions.

A summary of the activity in the allowance for forgiveness at June 30 follows:

		2004	2003
Balance at beginning of period	\$	2,292,031	2,346,535
Provision for forgiveness		418,148	451,788
Forgiveness granted		(314,124)	(506,292)
Balance at end of period	\$	<u>2,396,055</u>	<u>2,292,031</u>

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

(8) **Bonds Payable**

(a) Bonds payable at June 30 consist of the following:

	Original Amount	Amount outstanding	
		2004	2003
Outstanding under the 1988 Master Indenture:			
1993 Series A Student Loan Revenue Bonds serial bonds	\$ 43,400,000	—	20,495,000
1994 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.875% to 6.0%, due 2005 to 2008	50,000,000	19,680,000	23,740,000
1995 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.5% to 5.75%, due 2005 to 2009	55,000,000	29,270,000	35,470,000
1996 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.75% to 6.35%, due 2005 to 2013	38,000,000	31,000,000	33,500,000
1997 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.15% to 5.75%, due 2005 to 2015	75,000,000	73,000,000	75,000,000
1998 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.6% to 5.3%, due 2005 to 2016	88,570,000	60,000,000	70,000,000
1999 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.6% to 5.45%, due 2005 to 2017	40,000,000	36,750,000	38,500,000
2000 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.3% to 6.05%, due 2005 to 2018	32,140,000	32,140,000	32,140,000
term bonds, 6.0%, due July 1, 2016	7,860,000	7,860,000	7,860,000
2001 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 3.95% to 4.65%, due 2004 to 2011	33,345,000	33,345,000	33,345,000
	\$ <u>463,315,000</u>	<u>323,045,000</u>	<u>370,050,000</u>
Less bond discounts		(14,812)	(97,882)
Sub-total 1988 Master Indenture		\$ <u>323,030,188</u>	<u>369,952,118</u>

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

	Original Amount	Amount outstanding	
		2004	2003
Outstanding under the 2002 Master Indenture:			
2002 Series A and B Education Loan Revenue Bonds			
auction variable rate bonds, due 2009 to 2037	\$ 62,500,000	62,500,000	62,500,000
2003 Series A-1 and A-2 Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2038	47,000,000	47,000,000	47,000,000
2004 Series A-1, A-2, A-3 Education Loan Revenue Bonds			
auction variable rate bonds due 2044	93,100,000	93,100,000	—
serial bonds, fixed rate ranging			
from 5.0% to 5.25%, due 2011 to 2017	22,015,000	22,015,000	—
	<u>\$ 224,615,000</u>	224,615,000	109,500,000
Plus bond premium		934,957	
Sub-total 2002 Master Indenture		<u>\$ 225,549,957</u>	<u>109,500,000</u>

	Original Amount	Amount outstanding	
		2004	2003
Outstanding under the 2004 Indenture:			
2004 Series A Capital Project Revenue Bonds			
serial bonds, fixed rates ranging			
from 2.0% to 4.0%, due 2005 to 2017	\$ 69,910,000	69,910,000	—
term bonds, 4.0%, due July 1, 2018	5,230,000	5,230,000	—
	<u>\$ 75,140,000</u>	75,140,000	
Plus bond premium		2,318,476	
Sub-Total 2002 Indenture		<u>\$ 77,458,476</u>	
Bonds Payable		\$ 622,800,000	479,550,000
Plus bond premium/ Less bond discounts		3,238,621	(97,882)
		<u>626,038,621</u>	<u>479,452,118</u>

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

- (b) The minimum payments and sinking fund installments related to the each indenture for the five years subsequent to June 30, 2004 and thereafter are as follows:

1988 Master Indenture

Period ending June 30		Principal	Interest	Total
2005	\$	55,095,000	15,834,631	70,929,631
2006		25,500,000	13,788,132	39,288,132
2007		23,125,000	12,550,967	35,675,967
2008		25,800,000	11,288,459	37,088,459
2009		27,250,000	9,895,668	37,145,668
2010-2014		104,080,000	30,946,265	135,026,265
2015-2019		62,195,000	4,642,126	66,837,126
	\$	<u>323,045,000</u>	<u>98,946,248</u>	<u>421,991,248</u>

2002 Master Indenture

Period ending June 30		Principal	Interest	Total
2005	\$	26,400,000	3,582,685	29,982,685
2006		—	3,544,200	3,544,200
2007		—	3,544,200	3,544,200
2008		—	3,544,200	3,544,200
2009		—	3,544,200	3,544,200
2010-2014		48,670,000	15,017,850	63,687,850
2015-2019		5,645,000	10,129,800	15,774,800
2020-2044		143,900,000	44,850,220	188,750,220
	\$	<u>224,615,000</u>	<u>87,757,355</u>	<u>312,372,355</u>

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

2004 Indenture Bonds

Period ending June 30		Principal	Interest	Total
2005	\$	5,965,000	1,957,406	7,922,406
2006		5,770,000	2,320,850	8,090,850
2007		5,925,000	2,204,650	8,129,650
2008		6,080,000	2,085,400	8,165,400
2009		6,245,000	1,963,000	8,208,000
2010-2014		33,530,000	5,956,100	39,486,100
2015-2019		11,625,000	1,162,200	12,787,200
	\$	<u>75,140,000</u>	<u>17,649,606</u>	<u>92,789,606</u>

Total for all Bonds

Period ending June 30		Principal	Interest	Total
2005	\$	87,460,000	21,374,722	108,834,722
2006		31,270,000	19,653,182	50,923,182
2007		29,050,000	18,299,817	47,349,817
2008		31,880,000	16,918,059	48,798,059
2009		33,495,000	15,402,868	48,897,868
2010-2014		186,280,000	51,920,215	238,200,215
2015-2019		79,465,000	15,934,126	95,399,126
2020-2044		143,900,000	44,850,220	188,750,220
	\$	<u>622,800,000</u>	<u>204,353,209</u>	<u>827,153,209</u>

- (c) The 1988 and 2002 Master Indenture Bonds are private activity bonds. The 2004 Indenture Bonds are not private activity bonds. All of the bonds pay interest semiannually. The bonds are secured by education loans and other assets of the Corporation and are not obligations of the State.

All of the bonds are subject to certain early redemption features, both mandatory and at the option of the Corporation. In addition, the bond indentures contain covenants relative to restrictions on additional indebtedness.

All of the bonds outstanding under the 1988 Master Indenture are insured by Ambac Assurance Corporation. The 2004 Capital Project Revenue Bonds outstanding under the 2004 Indenture are insured by MBIA Insurance Corporation.



## ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

### Notes to Financial Statements

June 30, 2004 and 2003

- (d) On June 5, 2003, the Corporation issued \$47,000,000 in education loan revenue bonds, of which \$15,885,000 was for the purpose of refunding the outstanding 1993 Series A bonds at par. The refunding occurred on July 1, 2004.

The refunding portion of the Series 2003A-2 bonds was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2038. The initial interest rate on the Series 2003A-2 bonds was 1.12%. The refunded 1993 Series A bonds interest rates were fixed rates ranging from 5.5% to 5.625% and were due in level debt service payments, with the final payment due July 1, 2006. The refunding resulted in aggregate debt service payments over the next seven years in a total amount of approximately \$400,000 less than the debt service payments which would have been due on the refunded bonds. Based on the Series 2003A-2 bonds' initial interest rate of 1.12%, there will be an estimated economic gain of \$900,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

- (e) On May 19, 2004, the Corporation issued \$115,115,000 in education loan revenue bonds, of which \$13,055,000 was for the purpose of refunding the outstanding 1994 Series A bonds and \$26,400,000 was for the purpose of refunding a portion of the Series 2002 A bonds, both at par.

The 1994 Series A refunding occurred on July 1, 2004. The refunding portion of the Series 2004A-2 bonds was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2044. The initial interest rate on the Series 2004A-2 bonds was 1.18%. The refunded 1994 Series A bonds interest rates were fixed rates ranging from 5.875% to 6% and were due in level debt service payments, with the final payment due July 1, 2007. The refunding resulted in aggregate debt service payments over the next seven years in a total amount of approximately \$700,000 less than the debt service payments which would have been due on the refunded bonds. Based on the Series 2004A-2 bonds' initial interest rate of 1.18%, there will be an estimated economic gain of \$740,000.

- (f) The Series 2002 A refunding occurred on August 16, 2004. The refunding portion of the Series 2004 A-1 was issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2044. The initial interest rate on the Series 2004 A-1 bonds was 1.20%. The refunded Series 2002 A bonds were issued as auction variable rate certificates in which the interest rate reset every 35 days and the principal payments were due June 1, 2009 and 2010. The refunding was effected to extend the maturity dates of these bonds to June 1, 2044. There is no expected economic gain or change in debt service payments over the next six years.

#### (9) **Arbitrage Rebate Payable**

In connection with the Corporation's tax-exempt bond issues, the Corporation is subject to rebatable arbitrage when bond proceeds are invested in investments and education loans. Interest income from investments and education loans is limited by the U.S. Treasury regulations. The amount accrued for

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Notes to Financial Statements

June 30, 2004 and 2003

arbitrage rebate liability at June 30, 2004 and 2003, represents the amount of arbitrage rebate due to the federal government for excess earnings on the bond proceeds.

### (10) **Student Loan Interest and Special Allowance on Federally Guaranteed Loans**

The U.S. Department of Education makes quarterly interest subsidy payments on behalf of qualified students until the student is required under provisions of the Higher Education Act to begin repayment. Repayment on Stafford Education loans normally begins within six months after students complete their course of study, leave school, or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period.

The U.S. Department of Education provides a special allowance payment to lenders participating in the Stafford, PLUS, and Consolidation loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed after June 30, 1999 and financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of the three-month Financial Commercial Paper, plus a predetermined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993 are eligible for full special allowance and are not subject to a minimum return.

### (11) **Retirement Plan**

Effective July 1, 1997, the Commission adopted the provisions of Government Accounting Standards Board Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Government Employers*. There was no impact on the financial statements as a result of GASB 27.

#### (a) ***Plan Description***

The Commission and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), as a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, post-employment healthcare, and death and disability benefits to eligible employees. All full-time employees are required to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty. For employees hired after June 30, 1986 the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit for the first ten years of service is equal to 2% per year of the member's highest three-year average yearly compensation, 2.25% per year for the second ten years of service, and 2.5% per year thereafter. All service earned prior to

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members with five or more years of credited service first hired after June 30, 1986, but before July 1, 1996, may elect major medical benefits. Members first hired after June 30, 1996 must obtain at least ten years of credited service to be eligible to elect major medical benefits.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203 Juneau, Alaska 99211-0203 or by calling (907) 465-4460.

(b) ***Fund Policy and Annual Pension Cost***

Employees are required, by State statute, to contribute 6.75% of their gross wage to the plan. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Covered payroll for the period ended June 30, 2004, was approximately \$4,361,000 constituting substantially all of the Commission's payroll. The Commission's annual pension cost for the current year and the related information is as follows:

Contribution rates:

Employee	6.75%
Employer	7.65%

Annual Pension cost to date	\$	333,540
Contributions made	\$	333,540

Actuarial valuation date	June 30, 2003
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay
Amortization period	25-year Fixed
Asset valuation method	5-year smoothed market

Actuarial assumptions:

Inflation rate	3.50% per year
Investment return	8.25% per year, compounded annually, net of expense.

Projected salary increase:

Inflation	3.50%
Productivity and merit	2.00%

Health cost trend	12.00%
-------------------	--------

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Notes to Financial Statements

June 30, 2004 and 2003

In the current year, the Commission determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset).

### (12) Commitments and Contingencies

#### (a) *Operations*

The Commission included approximately \$9,600,000 in its budget for fiscal year 2005 as reimbursement from the Corporation for administrative and capital expenses incurred on the Corporation's behalf. Amounts paid by the Corporation will be subject to revision based upon actual expenses incurred by the Commission.

#### (b) *Payment to the State of Alaska*

During fiscal year 2000 the Alaska legislature passed a bill that allows the Corporation to pay the State a return of contributed capital or dividend annually based on net income. If the Corporation's Board of Directors elects to make such a payment, the amount may not be less than 10%, nor greater than 35%, of the Corporation's income before transfers when it equals or exceeds \$2,000,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On September 23, 2004, the Corporation's Board of Directors approved a \$5,600,000 Return of Capital payment to the State which will be paid during the fiscal year 2005.

During fiscal year 2004 the Alaska legislature passed a bill allowing the Corporation an additional means to pay the State a return of contributed capital. The Corporation is now permitted to use its bonding authority to return capital invested in the loan program back to the State. By year-end, a Capital Project Revenue account was established and funded with \$75,000,000 for use in financial various State capital projects.

#### (c) *Interest Cost Reduction*

On December 4, 2000, the Corporation Board of Directors authorized an interest cost reduction for loans awarded with interest rates of 9%, 8.9%, and 8.6%. The amount of the reduction will range from three-tenths percent (.3%) to seven-tenths percent (.7%) of the outstanding principal balance of the loan. The aggregate cost reduction in fiscal year 2004 was approximately \$883,000. The Corporation expects the cost to continue to decline each year, reaching a final reduction of approximately \$40,000 by year 2022.

#### (d) *State Permanent Fund Dividend Seizure*

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the Alaska State Constitution in 1976. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund (PFD) annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. The annual PFD paid to each eligible resident for the years 2003 and 2002 was \$1,108 and \$1,541 respectively. There can be no assurance that payments will continue. PFD payments could be eliminated or reduced

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003

by an amendment to the Alaska Statutes. The Commission may seize a borrower's Permanent Fund Dividend (PFD) payment, if any, to satisfy the balance of a defaulted loan pursuant to Alaska Statutes 14.43.145 and 43.23.067. To do so, the Commission issues certified claim letters to all borrowers of defaulted loans applying for PFD, notifying them of the Commission's claim. The Commission has seizure priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will qualify or apply for a PFD payment.

PFD seizures collected by the Commission were approximately \$4,900,000 and \$6,800,000 for the years ended June 30, 2004 and 2003, respectively.

The Legislature and the Governor have, from time to time, considered various alternative measures including reducing or restricting the size of the PFD. The Corporation cannot predict whether any such measure will be enacted or the impact any such measure would have on loan collections through PFD seizures.

(e) **General**

The education loan program has traditionally been the subject of legislative action by the State. The laws governing the program have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the program cannot be determined.

The Corporation is subject to interest rate risk relating to its variable rate bonds and the loans funded with bond proceeds. The bonds are subject to an interest rate cap of 14% while the loans are subject to an interest rate cap of 8.25% to 9.5% depending on the loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate cap.

**(13) Subsequent Event**

As further described in Note 8, on May 19, 2004, the Corporation issued \$115,115,000 in education loan revenue bonds in part for refunding at par \$13,055,000 of the outstanding Series 1994 A bonds and \$26,400,000 of the Series 2002 A bonds. The Series 1994 A refunding will occur on July 1, 2004 and the Series 2002 A refunding will occur on August 16, 2004.